

## Memorandum

**TO:** HONORABLE MAYOR, CITY  
COUNCIL, AND REDEVELOPMENT  
AGENCY BOARD

**FROM:** Del D. Borgsdorf  
Harry S. Mavrogenes

**SUBJECT: APPROVAL OF AGREEMENTS  
FOR THE SAN JOSE GRAND PRIX**

**DATE:** 4-22-05

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**COUNCIL DISTRICT: 3**

### RECOMMENDATION

1) Adoption of a Resolution by the City Council:

- (a) Approving the Amended and Restated Agreement to Conduct a San José Grand Prix, by and among the City, Canary Enterprises, LLC; San José Arena Management LLC; and San José Sports Authority, amending among other things the proposed Race Circuit and deleting certain financial obligations of the City and San José Arena Management (SJAM);
- (b) Authorizing the City Manager to negotiate and execute as necessary, amendments to that certain Parking Agreement with Walton San José Investors, LLP, (the San José Marriott), with regard to the use of the Convention Center parking garage during the Grand Prix, at no cost to the City or Agency;
- (c) Authorizing the City Manager to negotiate and execute, as necessary, amendments to that certain Lease between the City and Boston Properties for the public parking lot located on the west side of Almaden Blvd south of San Carlos Street, with regard to the use of that parking lot in conjunction with the Grand Prix, at no additional cost to the City or Agency;
- (d) Finding that the economic development benefits of bringing international exposure to San José through a Grand Prix event justifies the City's financial obligations under the Agreement with regard to use of City property and assistance with certain fees;
- (e) Terminating the Cooperation Agreement with the Redevelopment Agency with regard to the funding of the Improvements on the HP Pavilion, which are no longer required due to the relocation of the Race Circuit;

- (f) Authorizing the City Manager to negotiate and execute a Use Agreement with Canary Enterprises, LLC, with regard to the provision of storage space on City-owned property;
  - (g) Authorizing the establishment of event parking rates for the San José Grand Prix, up to \$15 daily flat rate during July 29-31, 2005, at downtown City and Agency parking garages and lots;
  - (h) Authorizing the City Manager to negotiate and execute as necessary, an agreement with the Valley Transportation Authority (VTA) and Canary Enterprises, LLC, to modify transit service to accommodate the Grand Prix, at no cost to the City or Agency.
- 2) Adoption of Appropriation Ordinance and Funding Sources Resolution amendments in the General Fund to reflect the lower contributions from City and Agency Funds for the project:
- (a) Decrease the San José Grand Prix appropriation by \$650,000.
  - (b) Decrease the revenue estimate for Transfers by \$650,000.
- 3) Adoption of Appropriation Ordinance amendments in the Economic Development Enhancement Fund to eliminate the contribution from this Fund for the project:
- (a) Decrease the Transfer to the General Fund by \$400,000.
  - (b) Increase the Ending Fund Balance by \$400,000.
- 4) Adoption of a resolution by the Agency Board:
- (a) Terminating the Cooperation Agreement with the City with regard to the funding of the Improvements at the HP Pavilion, which are no longer required due to the relocation of the Race Circuit.
  - (b) Authorizing the Executive Director to negotiate and execute, as necessary, amendments to that certain lease of property from Caltrans on Woz Way under Highway 87 for the use of that parking lot in conjunction with the Grand Prix at no additional cost to the City or Agency.
  - (c) Authorizing the Executive Director to negotiate and execute, as necessary, amendments to those certain Parking Agreements with West Hotel Partners L.P. and Hotel Sainte Claire Partners, L.P. with regard to the use of the Convention Center parking garage during the Grand Prix, at no cost to the City or Agency.

## **BACKGROUND**

On April 12, 2005, the City Council approved a change in venue for the San José Grand Prix to the "Downtown Race Course." The Downtown Race Course traverses the following streets: Almaden Boulevard, Park Avenue, Market Street, and Balbach Street.

In December 2004, the City Council approved an agreement with Canary Enterprises LLC (Canary), San José Arena Management LLC (SJAM), and the San José Sports Authority (Sports Authority) based on a race circuit to be constructed on portions of the City owned HP Pavilion, as well as certain streets and parks surrounding HP Pavilion (the "Arena Race Course"). This initial agreement called for the transfer of \$650,000 from the City's Development Enhancement Special Fund (\$400,000) and the Redevelopment Agency (\$250,000). The monies were to be used to finance race circuit improvements at the HP Pavilion site. A separate cooperation agreement between the City and Agency regarding the funding of this contribution was entered into on February 23, 2005.

On March 30, 2005 the Board of Director of the Valley Transportation Authority (VTA) directed the General Manager to negotiate and execute an agreement with Canary Enterprises/San José Grand Prix to accommodate the San José Grand Prix race event and mitigate impacts to transit operations.

## **ANALYSIS**

The basic terms of the proposed Amended and Restated Agreement remain unchanged. It provides for Canary to conduct a three-day, grand-prix-style road race in San José (San José Grand Prix) annually over a consecutive five-year period, with the first event held the weekend of July 29-31, 2005. However, the change from the Arena Race Course to the Downtown Race Course necessitates certain amendments to the original Agreement.

### **Changes in Financial Arrangements**

Since the new location no longer requires modifications to the Arena parking lot, the City no longer has an obligation to finance race circuit improvements. Under the original terms of the agreement the City was to use \$400,000 from its Development Enhancement Special Fund and an additional \$250,000 of redevelopment monies. These funds were to be repaid by Canary to the City and Agency over the term of the Agreement from Race proceeds. Since the contribution is no longer required, the City's participation in the Race proceeds has been deleted.

Similarly, the Sports Authority's contribution of \$325,000 will no longer be needed for the Arena lot modifications. The agreement has been changed to allow the Sports Authority contribution to be used for the Circuit Improvements and to defray other costs of the event. San José Arena Management is released of its funding obligation under the initial terms of the agreement.

### **Parking Revenues and Expenses**

The Downtown Race Course will use several City-operated parking facilities for grandstands, equipment staging, and other race-related uses. This will affect parking revenues currently generated by these facilities for a period of time ranging from 3 days (Convention Center Garage) to up to 90 days (portions of the Boston Properties parking lot on Almaden). Furthermore, the City is obligated to lease payments to Caltrans for the Woz Way parking lot and lease payments to Boston Properties for the Boston Properties parking lot.

The original agreement required Canary to reimburse the City for lost parking revenues commencing in 2006. However, in negotiating the Amended and Restated Agreement, it became apparent that the Race is an opportunity for the City to realize increased parking revenues from other Downtown facilities during the Race period. Rather than reimbursement of lost parking revenues, the Amended and Restated Agreement therefore provides that Canary will only reimburse to the City if revenues the City collects from other Downtown lots do not cover direct parking lot lease costs. For 2005, the lease costs to be covered have been estimated at \$28,424.

As such, staff is recommending that the City Council establish and charge event parking rates between \$5 and \$15 in the following parking facilities: Market Street garage, 3<sup>rd</sup> Street garage, 4<sup>th</sup> Street garage, 2<sup>nd</sup> and San Carlos garage, the 2<sup>nd</sup> and San Fernando lot (Block 2), 3<sup>rd</sup> and San Fernando lot (Block 3), Market and San Carlos lot (Block 8), Market and San Salvador lot, I-280 and 1<sup>st</sup> Street lot, 1<sup>st</sup> and Julian lot, San Pedro and Basset lot, and 2<sup>nd</sup> and St. James lot, from Friday, July 29 at 6:00 pm through Sunday, July 31 at 12:00 midnight. Authorization for a maximum rate is recommended, since final determination of the appropriate rates at each facility will be made based on observations of activity during the weeks and days leading up to the Race.

The City also currently has obligations to provide parking to various users (the Hilton Hotel, the Marriott Hotel, the Hyatt Sainte Claire, and all monthly parkers) in the Convention Center garage, the Almaden/Woz Way lot, the Almaden/Balbach lot, and the Woz/87 lot. Canary will be responsible to find replacement parking, and all the associated costs for replacement parking, for all parking tenants except City employees. The City will assist Canary to find alternate parking for tenants in the four parking facilities listed above, but in no way assumes the financial responsibility for replacement parking. The City will be responsible for providing alternate parking arrangements for approximately 350 City employees. Staff recommends that the City Council and Agency Board authorize the City Manager and Executive Director to negotiate and execute amendments to the hotel agreements as necessary to accommodate the closure of the Convention Center garage for the Grand Prix, at no cost to the City or Agency.

### **Construction of Downtown Race Circuit Improvements.**

The proposed Amended and Restated Agreement requires the construction of Downtown Race Circuit Improvements, which involve the reconstruction and repaving of Almaden Blvd., Balbach St., Park Ave. and Market St., and removing or reconstructing median islands on Almaden Blvd. and Park Ave. The work is being done by Canary pursuant to a separate



agreement and permit issued by Public Works, which also requires Canary to restore the construction work that had already started on the Arena Race Circuit. Canary and its contractor have posted payment and performance bonds to insure the completion of this work. In December 2004, the City Council made a finding that bidding the construction of Race Circuit improvements would be an idle act because they are being built at no cost to the City.

Under the initial Agreement, Canary has already deposited a Public Works fee for design and inspection services in the amount of \$440,000. Under the proposed Amended and Restated Agreement, Canary will pay for actual costs incurred by the Department of Public Works for design and inspection services, estimated at \$610,000.

The race course improvements are being designed by City forces in order to expedite project delivery and maintain the compressed schedule. The design team responsible for the race course design had successfully prepared the project plans and specifications for the original Arena alignment. The new route requires a complete redesign which will engage this team for another several weeks. Engineering support resources such as land surveying and materials testing crews are also required to shift priorities in order to meet the demands of the Grand Prix project schedule.

This reallocation of resources to the Grand Prix project requires redeployment of staff from several other City CIP projects, particularly in the Transportation CSA. A few projects will experience design related delays of up to four months while the design team has been reassigned to work on the Grand Prix project. A complete analysis of these impacts will be presented in the next Quarterly CIP status report scheduled to be presented to the City Council on June 7, 2005.

### **Fee Provisions**

Under the initial Agreement, the City Council determined that due to the economic development benefits expected to be realized by the City in the form of increased hotel and sales taxes, as well as national and international exposure of the Event, the City would be responsible for all of the standard fees and charges usually charged for Special Events, for the 2005 Race only. The exception is that Canary had agreed to pay for police and fire services up to \$200,000.

The change to the Downtown Race Circuit, while beneficial to the City for many reasons, significantly increases the impacts on City facilities, cultural and civic organizations, businesses, and residents. Therefore, some changes to the provisions regarding first year costs have been agreed to. For example, the cap on police and fire services for the 2005 Race has been increased to \$240,387. The 2005 race will provide the experience needed for refined estimates of extraordinary City expenses, which will be negotiated with Canary for reimbursement for the 2006 race. In future years, reimbursement for City costs will be capped at the 2006 level plus annual cost of living adjustment. Any difference between the negotiated amount and the estimated cost of City services will be submitted to the City Council annually and considered a contribution by the City to the Race.

### **Other Provisions**

The City's obligations to allow the Event on the Downtown Race Circuit is conditioned on, among other things, Canary entering into an agreement with VTA to mitigate impacts to the VTA's transit operations during the Race at no cost to City. Canary does not yet have an agreement with VTA. Preliminary discussions with VTA staff indicate that VTA prefers to have the City as a party to their Agreement with Canary. Therefore staff is requesting authority from the City Council to negotiate and execute an agreement with VTA at no cost to the City.

### **OUTCOMES**

By approving the Amended and Restated Agreement, Council is acknowledging financial considerations for the Downtown Race Course.

The three-day event is expected to stimulate the economy and generate both Sales Tax and Transient Occupancy Tax from the estimated 100,000-135,000 spectators and more than 2,000 Race employees.

These actions further the vision of San José as the world's most livable city, with diverse and distinctive qualities of life contained in the Economic Development Strategy by "Encouraging Sports Teams, Events, Facilities, Professional as well as Amateur" (Initiative 12).

### **PUBLIC OUTREACH**

Beginning in September 2004, the San José Sports Authority made initial contact with the neighborhood and business community regarding a proposed San José Grand Prix. Within the vicinity of the Arena Course Circuit, there are approximately 20-25 residences, 15-20 small businesses, and the Comerica building. Contact was made with all of the businesses and residents. Outreach to the neighborhood and business community continues in light of the race course change.

Given the varied amount of impacts the Downtown Race Course presents, outreach efforts are well underway. The Mayor and City Manager's Office met with many business stakeholders April 1, 2005 to discuss issues related to the downtown course. San José Grand Prix and City staff have identified 18 residences and approximately 80 businesses or organizations that will face some type of direct impact by the Downtown Race Course.

City and Redevelopment Agency staff have been designated to work with the residential and business community to address questions or concerns about the race impacts. Staff is in partnership with the Grand Prix and expeditiously developing outreach efforts to ensure: that knowledge of the event in the downtown area is widespread; that, where possible, concerns have been addressed; and that the business community can capitalize on the economic opportunities

afforded by the event. One-on-one meetings with key downtown stakeholders, including the hotels, St. Joseph Cathedral, Santa Clara County Superior Court, Tech Museum of Innovation, Children's Discovery Museum, San José Museum of Art, and Children's Musical Theater are underway. Meetings with other directly impacted businesses are being scheduled.

In addition, Canary and the City will conduct three general community meetings between now and the race to address resident and business concerns and will attend standing meetings held by neighborhood associations and downtown area business groups. The Grand Prix will mail a notice to businesses and residents within the downtown core to inform people about the race and invite them to attend the community meetings. Additionally, the construction schedule (move-in, move-out dates), 'frequently-asked-questions', and other pertinent information will be added to the Grand Prix and City websites.

It should be noted that while City staff and officials are, by necessity, involved in the outreach effort for this event, Canary is responsible for providing adequate accommodation for all businesses and residents that will be impacted by this event. The City has no authority to bind Canary to any third party obligations.

### **COORDINATION**

This project and memorandum has been coordinated with the City Attorney's Office, Budget Office, Department of Public Works, Transportation, Office of Cultural Affairs, Planning, Police, and Fire. Additional coordination has been made with the Valley Transportation Authority.

### **COST IMPLICATIONS**

As discussed previously, funding of \$650,000 from the Development Enhancement Fund and the Redevelopment Agency will no longer be necessary to support parking lot modifications at the HP pavilion. Budget actions are recommended in this memorandum to eliminate the transfers from these funds for the project and reduce the project cost accordingly.

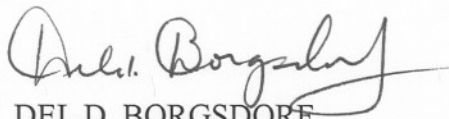
With the Downtown Race Course, the estimated police and fire/emergency service costs for the event in the first year is \$240,387, a \$40,387 increase from the Arena Race Circuit estimate. Canary will pay off-duty police officers directly up to a budgeted \$135,387. Canary will pay the City the remaining \$105,000, primarily for fire/emergency Services. Approximately \$610,000 in Public Works costs will also be paid by Canary.

**BUDGET REFERENCE**

Fund	Appn. #	Appn. Name	Total Appn.	Adopted Budget Page	Last Budget Action (Date, Ord. No.)
001	6377	San José Grand Prix	\$975,000	N/A	12/07/04 (Ord. 27306)

**CEQA**

EIR Resolution 68839, and Addendum thereto, File No. PP05-061.



DEL D. BORGS DORF  
City Manager



HARRY S. MAVROGENES  
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San Jose City Clerk  
12/22/05